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UNCLAS SECTION 01 OF 04 ULAANBAATAR 000712

SIPDIS

SENSITIVE

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STATE FOR EAP/CM AND EB/IFD/OIA
STATE PASS USTR, USGS, DOC/ITA, EXIM, OPIC, AND EPA
STATE PASS AID/ANE D. WINSTON
MILLENNIUM CHALLENGE CORP WASHDC FOR F.REID
TREASURY PASS USEDTS TO IMF, WORLD BANK
MANILA AND LONDON FOR USEDTS TO ADB, EBRD

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SUBJECT: Ambassador Meets New Minister of Industry and Trade
Narankhuu

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11. (SBU) SUMMARY: Newly appointed Minister of Industry and Trade Kh. Narankhuu told the Ambassador, during an initial courtesy call December 21, that the Government of Mongolia (GOM) hopes to conclude one or both of the two major mining projects under consideration (Oyu Tolgoi and Tavan Tolgoi) over the coming months. He reviewed the GOM's current thinking on the two projects and noted the GOM hopes major western firms will participate. The Ambassador reiterated USG advocacy support for U.S. firms and urged the GOM give the firms' respective proposals full and careful consideration as well as a timely decision. He also encouraged the GOM to move forward with the USTR-proposed Transparency Agreement (TA) which would in and of itself benefit Mongolia while serving as an important indicator of Mongolia's readiness to move its bilateral trade relationship with the U.S. to next level. The Ambassador also sought Narankhuu's support for Millennium Challenge Account Compact implementation preparations. A brief biography of Minister Narankhuu is included. END SUMMARY

12. (U) On December 21 the Ambassador, accompanied by DCM and the Senior Commercial Specialist (notetaker), called on newly appointed Minister of Industry and Trade Kh. Narankhuu. V. Enkhbold, Director for Trade and Economic Cooperation Policy Coordination and Chinbaazar, Americas Desk Officer, also attended the cordial 45-minute meeting.

Transparency Agreement A Useful Step Forward

¶13. (SBU) After congratulating Minister Narankhuu on his appointment the Ambassador noted that the two had met in fall 2006 during the Ambassador's visit to Erdenet. (Note: Prior to this recent ministerial appointment, Narankhuu had headed the Erdenet copper mine). The Ambassador expressed hope that bilateral commercial relations would continue to expand and noted that the next round of bilateral commercial and investment talks were tentatively set for February 2008 in Washington. He reviewed for Narankhuu the history of the U.S.-proposed transparency agreement (TA) and encouraged the Government of Mongolia to use this agreement as a stepping stone to eventually achieving the GOM's goal of a bilateral free trade agreement (FTA). The Ambassador also described efforts to conclude a Generalized System of Preferences (GSP) agreement to promote duty free entry to the U.S. of certain Mongolian handicrafts.

TA and FTA Prospects Reviewed

¶14. (SBU) Minister Narankhuu thanked the Ambassador for his comprehensive and positive report. He noted that Prime Minister Bayar had laid out his Government's goals for the next six months before the June parliamentary elections. The PM made clear that the GOM would carefully select the issues to address as it could not focus on too many problems in so short a period. Consequently, MOIT would follow the PM's lead and focus on a narrow range of issues.

¶15. (SBU) Turning to the transparency agreement, Narankhuu said he understood that the TA proposal would accelerate the bilateral trade

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relationship. He observed that the USG was having difficulty passing FTAs, and wondered why the GOM should go through the effort to complete multiple incremental steps. He stressed that timing and not willingness was the key for the GOM. He mused about packaging the TA with another less controversial trade proposal to facilitate Mongolian domestic support.

¶16. (SBU) The Ambassador drew upon his experience with the Korean FTA, observing that eventual FTA negotiations invariably build upon incremental efforts to build the basis for advanced trade talks. In Korea, much had been done quietly over the years to build the conditions for negotiations. The Ambassador explained that the U.S. President did not have the power to declare an FTA unilaterally; nor did the Congress have the power to force an FTA by means of a non-binding congressional resolution, as some in the GOM had mistakenly hoped. The Ambassador stressed the importance of getting U.S. businesses interested in Mongolia through mining and other projects that would, in turn, build a constituency to support a FTA with Mongolia. While acknowledging that USG recognized that a TA would be challenging for Mongolia, the Ambassador concluded that embarking on TA negotiations would indicate Mongolia's readiness to take the trade relationship to the next level. In addition, the Ambassador noted that pursuing a TA now would set into motion a process that any incoming USG administration could easily act upon; rather than suffer any delays that would invariably attend formulating new U.S.-Mongolia trade initiatives in the absence of any ongoing activities.

Support for U.S. Mining Firms

¶17. (SBU) The Ambassador said that the development of Mongolia's mineral resources would likely be the central sector for expanding U.S. commercial relations, and he explained the advocacy process under which the USG supported Rio Tinto's proposal to develop the Oyu Tolgoi (OT) copper deposit. He noted Rio Tinto had made a serious proposal worthy of the GOM's full, transparent, and careful consideration-along with a timely response. He said Peabody Energy would soon submit a proposal for the Tavan Tolgoi (TT) coal deposit, meriting similar consideration. The Ambassador stressed the importance of maintaining an open and transparent system and process for developing Mongolia's mining sector as vital to building

predictability and confidence among foreign investors.

GOM Hopes for Major Mining Project Approval - or Two

¶8. (SBU) Minister Narankhuu replied that the GOM hoped to successfully conclude investment (stability) agreements on one or both of the OT and TT projects. He said the GOM was addressing problem issues affecting both foreign and domestic investors in the mining sector. (Comment: We believe Minister Narankhuu meant in regards to problems with mining laws and regulations.) With respect to Tavan Tolgoi, Narankhuu noted that TT differs from other mining projects in that to date it has no major foreign involvement or investment. He said that at this point, the GOM was still attempting to come to agreement on the terms of any TT project implementation, adding that while doing this, the GOM must soon

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start negotiations with the current rights holder, Energy Resources. He expected talks would begin within the coming week or so.

¶9. (SBU) Narankhuu said that it was essential for the GOM get the licenses back to prevent the private sector from interfering with the GOM's implementation of its mining development concepts. He explained that once these concepts were in place and the GOM had an agreed upon plan or framework, then the GOM could consider how foreign direct investment and the public sector could work together on TT. He stressed that the GOM definitely wanted a world class western firm involved. He mentioned as Rio Tinto or BHP Billiton as possible examples.

Need for Consistent Mining Framework

¶10. (SBU) Minister Narankhuu acknowledged that the GOM's policy was in constant flux, and he recognized that this flux worried foreign investors, making them hesitate to invest. He added that the Parliament (the State Great Hural) and the GOM were still learning about the issues, and that GOM attempts to get mining projects off the ground were complicated by the simultaneous development of a proper legal framework. Narankhuu said PM Bayar supported efforts to agree on the basic terms for the TT project and the GOM hoped to recover the licenses by January 15, 2008.

Minister Describes GOM's Thinking on Mining Projects

¶11. (SBU) Turning to Oyu Tolgoi's prospects, Narankhuu said OT differs from TT in that it had a history of negotiations (with foreign rights holders who have already made substantial investments). He said conditions seemed more promising in the Parliament as the GOM saw a consensus building to resolve issues in this session rather than delay till after the elections. Groups were forming within Parliament to push certain points of view favoring forward movement on OT. Narankhuu said the GOM was talking with well-known Western consultancies and banks such as JP Morgan, Merrill Lynch, etc. to obtain a clearer assessment of the current OT proposal and the benefits that accrue to Mongolia upon its passage. He opined ironically that after years of urging western and American firms to come to Mongolia, "You came and now we're not ready and we're too slow."

Support for MCA Compact Measures Sought

¶12. (U) The Ambassador sought Minister Narankhuu's support for advancing the Millennium Challenge Account Compact implementation preparation process. Specifically, he encouraged the GOM to pass a Cabinet resolution establishing MCA-Mongolia to implement the Compact and to seek ratification of the Compact by Parliament.

Minister's Bio

¶9. (SBU) Born in 1955 in Ulaanbaatar, Narankhuu Khalzkhuu received the traditional education of the socialist era graduating from the

#2 Russian High School in Ulaanbaatar in 1973 and receiving Bachelors from Ukraine State University in International Economics in 1978. From 1978-1990, Narankhuu held several trade-related positions with the GOM: Instructor at the Ministry of Foreign Trade (1978-1979) and then Staff at the Council of Ministers in charge of COMECON issues (1979-1989). From 1990-1994, Narankhuu was Head of Department at the Ministry of Industry and Trade. While in this position, Narankhuu attended the University of Maryland-College Park (1991) and Georgetown University (1993) where he studied macroeconomics and market economics respectively. From 1994 through 1998, he served as Economic Counselor at the Mongolian Embassy in Washington, DC. By 1998, the then Democratic Party government ejected from most of the Mongolian Peoples Revolutionary Party (MPRP) functionaries, which Narankhuu was, from their respective positions. Consequently, Mr. Narankhuu left government service, joining the private sector. When the MPRP swept back into power in 2000, Mr. Narankhuu rejoined the GOM, assuming the position of Vice Minister of Industry and Trade from August to October, 2000. In October 2000, then Prime Minister (now President) Enkhbayar appointed Narankhuu to be the Director of the Erdenet Mining Corporation, which remains Mongolia's largest active mine, earner of foreign exchange, and generator of tax revenues. Narankhuu held this sensitive and vitally important position from October 2000 to December 2007, a testament to his political reliability, management skills, and relative integrity. In December 2007, he assumed the position of Minister of Industry and Trade in the Bayar-MPRP Cabinet.

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